Informational Bulletin

FY 96-23 February 1996

■ New Income Tax Deduction

To: Taxpayers

The Illinois Income Tax Act has been amended to provide a new income tax deduction for individual income tax taxpayers. You may be eligible to deduct from your adjusted gross income the amount you paid for health insurance or long-term care insurance. This new deduction is effective beginning with tax years ending on or after December 31, 1995. See Public Act 89-418 for further details.

Am I eligible to take this deduction on my 1995 Form IL-1040, Illinois Individual Income Tax Return?

If you

- are a self-employed individual, partner of a partnership, or a shareholder of a subchapter S corporation, and
- pay health insurance premiums or long-term care insurance premiums for yourself, your spouse, or your dependents, and
- are **not** eligible to participate in any health insurance plan offered by your employer (i.e., you are self-employed and you are also an employee for someone else) or your spouse's employer,

you may be entitled to subtract a portion of the amount you

paid in premiums from your adjusted gross income.

How much may I deduct?

You may deduct the amount you paid in premiums for health insurance and long-term care insurance that qualifies as a deduction under the Internal Revenue Code, Section 213, and has not been deducted on your federal income tax return. However, your deduction cannot exceed your taxable income attributable to your selfemployment, partnership, or subchapter S corporation income.

How do I determine the amount I may deduct on Form IL-1040?

To determine the amount you may deduct on your Form IL-1040, multiply the total amount of health insurance and long-term care insurance premiums you paid by the number that represents the fractional percentage of eligible medical expenses under the Internal Revenue Code, Section 213, that has not been deducted on your federal income tax return.

Federal law currently allows you to deduct up to 30 percent of the cost under the direct deduction (i.e., self-employed health insurance deduction) and

may also entitle you to include additional amounts of the costs as excess itemized medical deductions.

For example: You paid \$3,000 in health care premiums during 1995. On your federal Form 1040, U.S. Individual Income Tax Return, Line 26, you are entitled to deduct \$900 (\$3,000 X 30% = \$900) from your total income as a self-employed health insurance deduction. If you do not file a federal Schedule A, Itemized Deductions, with your federal return, you may take the remaining \$2,100 as a deduction on Form IL-1040. Line 9.

What if I itemize my deductions on federal Schedule A?

If you itemize your deductions, the remaining \$2,100 not deducted on federal Form 1040. Line 26, will be included on Schedule A, Line 1, with any other medical expenses. Therefore, you must figure the fractional percentage of combined medical expenses that represents premiums paid. You must also figure the amount of eligible expenses that can be included in Schedule A, Line 1, but cannot be deducted (i.e., Schedule A, Line 3).

The federal Schedule A only allows you to deduct the amount Page 2 FY 96-23

in excess of 7.5 percent of your adjusted gross income (AGI).

Note: If Schedule A, Line 4, is zero, stop. You may deduct the remaining \$2,100 in premiums paid on your Form IL-1040, Line 9.

For example: On your federal Form 1040, Line 26, you deduct \$900 (\$3,000 X 30% = \$900) from your total income and have figured your adjusted gross income on Line 31 to be \$75,000. You report on Schedule A, Line 1, the combined total of both the remaining \$2,100 in premiums paid and \$7,900 for other medical expenses totaling

\$10,000 in expenses. Premiums paid are 21 percent of total medical expenses (\$2,100 ÷ \$10,000 = 21%).

Note: You must use the full decimal (*i.e.*, without rounding).

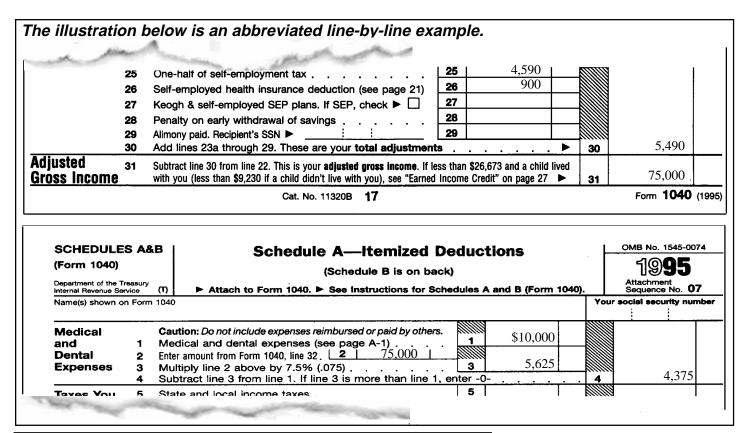
To determine the amount you may deduct on your Form IL-1040, you must first figure the amount you may deduct on your federal Schedule A, Line 4. To figure that amount, multiply your AGI by 7.5 percent (\$75,000 X .075 = \$5,625). Write the result on Schedule A, Line 3. Subtract Line 3 from Line 1. The result is the amount you may deduct on Schedule A,

Line 4, (\$10,000 - \$5,625 = \$4,375).

Next, multiply the amount **not** deducted by the percentage that represents the premium portion of total eligible medical expenses (21 percent). The amount you may deduct on your Form IL-1040, Line 9, is \$5,625 X .21 = \$1,181.

Questions?

If you have questions or need more information, please call or write us. Our telephone numbers and address are printed at the bottom of this bulletin.



Note: Due to the late passage of House Bill 1810, we were unable to incorporate the new deduction into the 1995 Illinois Income Tax booklets. See Public Act 89-418 for further reference.

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FOR INFORMATION...

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1 800 544-5304 TDD-telecommunications device for the deaf

WRITE: Illinois Department of Revenue, 101 W. Jefferson St., P.O. Box 19044, Springfield, IL 62794-9044